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SUBJECT: BURKINA FASO: DESPITE RECORD HARVEST CEREAL
PRICES CONTINUE TO SOAR

REF: A) 08 Ouagadougou 424; B) 08 Ouagadougou 439; C) 08
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¶1. (SBU) Summary: Although Burkina Faso recorded good harvests during the 2008-09 agricultural campaign, cereal prices in local markets remain at record levels. Burkina Faso produces the bulk of its cereal needs, approximately 3.5 million metric tons, and imports small amounts of rice and wheat. Local cereal merchants and farmers' associations claim that demand from neighboring countries has dramatically impacted prices, while critics claim that farmer stockpiling is also responsible for the problem. With food prices rising or remaining at inflated levels, the Government of Burkina Faso (GOBF) recently met with producers, intermediaries, and other stakeholders to address this potentially grave issue. The government appears committed to a free-market system despite concerns that if cereal prices do not fall, the country could again face violent demonstrations. End Summary.

PRICES BELIE RECORD CEREAL PRODUCTION

¶2. (SBU) Despite a surplus cereal production of more than 700,000 metric tons for the 2008-09 growing season (REFTEL C), Burkina Faso continues to face rising food commodity prices. According to Burkinabe producers, a 100 kg bag of grain is currently selling for 15,000 CFA (US \$30); this is twice January 2008 prices, which were between 7,000 CFAF (US \$14) and 8,000 CFAF (US \$16). "This situation is unprecedented for the month of January," confessed Moussa Dagano, a farmers' association representative from Sissili province. According to Dagano, the price of a 100 kg bag of corn increased to US \$32 in January 2009 from US \$15 in November 2008.

¶3. (SBU) Although producers acknowledge that cereal prices can be volatile, most agree that 2009 prices are abnormally high and that the commodities market is acting in an uncharacteristic manner. In a typical year, prices start increasing during the lean period, from August to September, and then dramatically decrease after the harvest. Under these conditions, traders may realize high speculative profits or losses, depending upon the accuracy of their market price expectations. But this year, prices have been above average -- even higher than those traditionally found after a bad harvest. According to Afrique Verte, an international organization which publishes a monthly on-line commodities survey, December and January prices in Burkina Faso increased at an

unprecedented 20 percent for corn and 14 percent for millet and sorghum.

KEY DETERMINANTS OF CURRENT CEREAL PRICES

¶4. (SBU) During a January 14 joint meeting, farmers association leaders, local grain merchants, and government representatives, gave three reasons cited to explain the recent price increases:

-- Farmers blamed price increases on buyers from neighboring countries like Ghana, Togo, and Ivory Coast, who entered the local cereal market at the end of 2008. These foreign buyers were willing to pay premium prices and consequently both local demand and cereal prices were driven up.

-- Instead of selling commodities on the market, farmers used surplus cereal production from the 2008 campaign to rebuild cereal stocks depleted by the 2007-08 food crisis. Thus, the record 2008 harvest failed to bring down prices. For example, on January 15, the government daily newspaper, Sidwaya, reported that farmers from the Eastern Region claimed that despite a good harvest; they have less to sell because the 2008 food crisis depleted their stocks to their lowest levels in over 10 years.

-- Government support for cereal crops has historically been very weak and needs to improve. Although cereals account for 80 percent of cultivated areas and 70 percent of domestic food intake, the GOBF has continued to pour millions of dollars into the country's failing cotton industry and other neglected food crops. (REFTEL B) During the January 14 meeting, farmers' representative, Joseph Dagano, acknowledged that although the 2008 harvest was successful, the government must do more to encourage cereal production. Dagano explained that in 2008, the government subsidized rice production but failed to provide substantial support for other important cereal crops such as corn or sorghum.

HIGH PRICES SPELL OPPORTUNITY FOR FARMERS

¶5. (SBU) After the 1992 liberalization of the cereals market, the GOBF abandoned its financial support and encouraged greater private sector participation. The net result was a cereal market chain consisting of small farmers, collectors, wholesalers, transporters, retailers, and a much smaller group of large traders, who also import and export commodities. Although the cereal supply chain can take many different forms, this complex system of intermediaries often results in reduced producer income. However, this year many farmers circumvented the traditional commodities path and sold their crops directly to the highest bidder.

¶6. (SBU) By circumventing the market chain, producers were finally able to realize a profit; however, this resulted in a cereals shortage and higher prices for local consumers. On January 15, the independent newspaper, Le Pays, quoted Denis Zoungana, a spokesperson for cereal vendors, that "they were surprised by this unprecedented situation." According to Zoungana, the cereal shortage generally comes during the months of May, June, and July, but this year it arrived during the fall harvest season. He added that following the 2008 harvest, vendors began collecting cereals but could not find sufficient quantities because buyers from neighboring countries had already approached local producers and offered them a much better price.

¶7. (SBU) On January 15, Le Pays reported that during January 5-8, a mission of the National Company in Charge of the Management of National Food Security Stocks

(SONAGESS) traveled throughout the Cascades Region to collect rice for its stockpile. The mission was stunned when farmers refused to provide the promised quantities of rice and snubbed a government offer that included production subsidies. According to the article, the farmers were not interested in the 115 CFAP (US \$0.23) per kilogram established by the government when they could sell the same quantity of rice for 200 FCFA (US \$0.40) a kilogram.

GOBF SEARCHES FOR SOLUTIONS

¶8. (SBU) The GOBF quickly realized the severity of the issue and called a joint meeting on January 14, for farmers, local cereal traders, and other stakeholders. During this meeting, Minister of Agriculture, Laurant Sedogo, pointed out that the government was deeply concerned about skyrocketing commodities prices, which occurred despite a successful 2008-09 agricultural campaign. Minister of Trade, Mamadou Sanou, described the food security situation in Burkina Faso as "worrisome" and warned farmers that, "if these trends continue and cereal prices do not come down, we are going to have a repeat of the social unrest seen in 2008 (REFTEL A). This is not good for the country; we need to safeguard peace."

¶9. (SBU) The general consensus during the January 14 meeting was that immediate action must be taken to diminish the economic impact of price increases. Soumabere Dioma, President of Burkina Faso's Inter-professional Cereal Committee (CICB), suggested that the government launch an awareness campaign urging farmers to release part of their stocks onto the market. He also suggested that the GOBF conduct a survey to assess the root causes of the price increases and to purchase grain to supplement depleted national stockpiles.

¶10. (SBU) Although some consumers have called for government controls on cereal prices, the GOBF is standing firm on its promise that it will not interfere in the commodities market. During the January 14 meeting, Minister Sanou stated that, "the GOBF supports a free market system and will not engage in price fixing." Moreover, Sanou explained that Burkina Faso would not prevent grain from leaving the country because it agreed to allow free movement of people and goods within the West African Economic and Monetary Union (WAEMU) and Economic Community of West African States (ECOWAS). Sanou added that the GOBF is avoiding strong-arm tactics, choosing instead to encourage farmers to increase their production levels and to act in the best interests of the country.

¶11. (SBU) To ensure cereal availability in local markets, the GOBF is encouraging farmers to sell their stockpiles and is promising production subsidies over and above those of last year. During the January 14 meeting, Minister Sedogo assured farmers and cereal traders that "the government is going to renew last year's subsidies, and even improve them." In addition to encouraging production, the GOBF is also taking preventive measures that would enable it to sell commodities at "social" prices similar to those offered during the 2008 crisis (REFTEL B). On January 21, the GOBF, through SONAGESS, published several invitations of tender in the daily newspapers l'Observateur Paalga and Le Pays, for the purchase of 30,108 metric tons of cereals.

¶12. (SBU) Comment: If left unchecked, skyrocketing commodity prices could undermine development efforts by causing poor households and even small farmers, who are also often consumers, to fall even deeper into poverty. The USG should continue to support the GOBF in its efforts to maintain a free-market system in the face of intense financial pressures. USG programs that promote

regional food security will continue to be a key factor in determining whether the GOBF will be successful. In order to improve current conditions, the GOBF needs to provide technical and financial assistance that will increase cereal production, improve access to timely market information, expand transportation corridors, and build emergency stockpiles to stabilize prices during supply shortages.

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